Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author: Rod Pacheco | Analyst: Kristina E. North | Bill Number: AB 2200

Related Bills: None | Telephone: 845-6978 | Amended Date: May 22, 2000

Attorney: Patrick Kusiak | Sponsor: ______

SUBJECT: Medical Expenses Credit/Taxpayers 65 Years or Older/FTB Report Annually Regarding Utilization of Credit

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

__X__ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _________.

_____ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO _________________________.

_____ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED ___________ STILL APPLIES.

__X__ OTHER - See comments below.

SUMMARY OF BILL

Under the Personal Income Tax Law (PITL), this bill would allow qualified taxpayers a credit equal to 20% of qualified medical expenses, up to $2,000 per taxable year, for a maximum credit amount equal to $400.

SUMMARY OF AMENDMENT

The May 22, 2000, amendment deleted the above-the-line deduction for medical expenses and replaced it with the credit discussed in this analysis.

EFFECTIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and operative for taxable years beginning on or after January 1, 2000, and before January 1, 2007.

SPECIFIC FINDINGS

Current federal law, to which **state law** conforms, specifically allows a deduction for unreimbursed medical care expenses as an itemized deduction, but only to the extent that the expenses exceed 7.5% of the taxpayer's adjusted gross income (AGI). "Medical care expenses" are amounts paid for the diagnosis, cure, mitigation, treatment or prevention of disease or for the purpose of affecting any structure or function of the body; transportation cost of a trip primarily for and essential to medical care; and qualified long-term care services or for medical insurance (including premiums paid under the Social Security Act).

Board Position:			Department Director	Date
______ S	______ NA	______ NP		
______ SA	______ O	______ NAR		
______ N	______ OUA	______ PENDING		

Lodging while away from home for a trip primarily for and essential to medical care, capital expenditures for home improvements and additions added primarily for medical care (to the extent that the cost of improvement exceeds any increase in the value of the property), insulin, prescription drugs and medicines also may qualify as medical care expenses.

This bill would allow qualified taxpayers a credit equal to 20% of qualified medical expenses up to $2,000 per taxable year, for a maximum credit amount of $400.

This bill would define "qualified taxpayer" as an individual (or both individuals in the case of a married couple filing a joint return) who is 65 years of age or older by December 31 of the taxable year and either married filing a joint return or head of household with an AGI of $75,000 or less or an individual with an AGI of $37,500 or less.

This bill would define "qualified medical expenses" as those expenses paid or incurred for medical care described under federal tax law, without regard to any AGI restriction.

This bill would specify that no other credit or deduction would be allowed for the qualified expenses claimed for this credit. Any unused credit could be carried over for eight years.

This bill would require the Franchise Tax Board (FTB) to report annually, to the extent data are available, on the utilization of this credit.

Policy Consideration

In the case of a married couple filing a joint return, the credit would only be allowed if **both** spouses were age 65 or older as of December 31 of the year the expenses were paid or incurred.

Implementation Consideration

The implementation of this bill would not significantly impact the department.

Technical Consideration

Amendment 1 would eliminate two unnecessary words.

Amendment 2 would clarify to whom the FTB would annually report on the utilization of this credit.

LEGISLATIVELY MANDATED REPORTS

This bill would require the FTB to annually report on the utilization of this credit, to the extent data are available.

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

Based on data and assumptions discussed below, this bill would result in the following revenue losses.

Estimated Revenue Impact of AB 2200 As Amended May 22, 2000 [$ In **Millions**]		
2000/2001	2001/2002	2002/2003
-$165	-$160	-$160

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Tax Revenue Discussion

The amount of medical expenses up to $2,000 incurred by qualified taxpayers and the amount of credits that could be applied to reduce tax liabilities would determine the revenue impact of this bill.

Based on national household spending data for 1997, the average annual out-of-pocket expenditures for healthcare expenses by seniors were projected at $3,660 in 2000. Healthcare expenses up to $2,000 annually would qualify for the proposed credit. Multiplying qualified healthcare expenditures of $2,000 by the proposed credit percentage of 20% derived an average credit equal to the proposed maximum of $400.

A simulation was performed using personal income tax sample data. The senior exemption credit was increased by the proposed maximum credit of $400 for taxpayers with AGI of $37,500/$75,000 or less (single and head of household/joint). Assuming each qualified taxpayer in the sample generated the maximum credit, the simulation models the maximum revenue loss to the extent credits generated could be applied to reduce tax liabilities. Reduction adjustments were made to the model result to allow for the following: (1) taxpayers with healthcare expenses insufficient to generate the maximum credit, (2) for the portion deducted under current law as a medical expense (subject to the 7.5% of AGI threshold), and (3) to reflect the rate at which qualified taxpayers would report the credit on their tax returns.

BOARD POSITION

Pending.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 2200
As Amended May 22, 2000

AMENDMENT 1

On page 3, line 20, strikeout "amount of"

AMENDMENT 2

On page 4, line 15, after "annually" insert:

to the Legislature